

ORIGINAL



BEFORE THE ARIZONA CORPORATION CO.  
RECEIVED

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MIKE GLEASON  
KRISTIN K. MAYES  
BARRY WONG

AZ CORP COMMISSION  
DOCUMENT CONTROL

2006 NOV -7 P 4: 07

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR A  
HEARING TO DETERMINE THE FAIR VALUE  
OF THE UTILITY PROPERTY OF THE  
COMPANY FOR RATEMAKING PURPOSES, TO  
FIX A JUST AND REASONABLE RATE OF  
RETURN THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP SUCH  
RETURN, AND TO AMEND DECISION NO.  
67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE  
FREQUENCY OF UNPLANNED OUTAGES  
DURING 2005 AT PALO VERDE NUCLEAR  
GENERATING STATION, THE CAUSES OF THE  
OUTAGES, THE PROCUREMENT OF  
REPLACEMENT POWER AND THE IMPACT OF  
THE OUTAGES ON ARIZONA PUBLIC  
SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL  
AND PURCHASED POWER PRACTICES AND  
COSTS OF THE ARIZONA PUBLIC SERVICE  
COMPANY.

DOCKET NO. E-01345A-05-0827

STAFF'S NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby provides notice of filing the Testimony  
Summary of David C. Parcell in the above-referenced matter.

RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of November, 2006.

Arizona Corporation Commission  
DOCKETED

NOV -7 2006

DOCKETED BY	nr
-------------	----

*Christopher C. Kempley*  
Christopher C. Kempley, Chief Counsel  
Janet Wagner, Senior Staff Counsel  
Charles Hains, Attorney  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

1 Original and 17 copies of the foregoing filed  
2 this 7<sup>th</sup> day of November, 2006, with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, AZ 85007

7 Copy of the foregoing mailed this  
8 7<sup>th</sup> day of November, 2006 to:

9 Deborah R. Scott  
10 Kimberly A. Grouse  
11 SNELL & WILMER  
12 One Arizona Center  
13 400 East Van Buren Street  
14 Phoenix, AZ 85004-2202

15 Thomas L. Mumaw  
16 Karilee S. Ramaley  
17 PINNACLE WEST CAPITAL  
18 CORPORATION  
19 Post Office Box 53999, MS 8695  
20 Phoenix, AZ 85072-3999

21 C. Webb Crockett  
22 Patrick J. Black  
23 FENNEMORE CRAIG, P.C.  
24 3003 North Central Avenue, Suite 2600  
25 Phoenix, AZ 85012-2913

26 Michelle Livengood  
27 UniSource Energy Services  
28 One South Church Street, Suite 200  
Tucson, AZ 85702

Donna M. Bronski  
Deputy City Attorney  
City Attorney's Office  
3939 North Drinkwater Boulevard  
Scottsdale, AZ 85251

George Bien-Willner  
3641 North 39<sup>th</sup> Avenue  
Phoenix, AZ 85014

Michael W. Patten  
J. Matthew Derstine  
Laura E. Sixkiller  
ROSHKA DEWULF & PATTEN, PLC  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, AZ 85004

Michael L. Kurtz  
BOEHM, KURTZ & LOWRY  
36 East Seventh Street, Suite 1510  
Cincinnati, OH 45202

Scott S. Wakefield  
RUCO  
1110 West Washington Street, Suite 220  
Phoenix, AZ 85007

Lawrence V. Robertson, Jr.  
Post Office Box 1448  
Tubac, AZ 85646

Bill Murphy  
Murphy Consulting  
5401 North 25<sup>th</sup> Street  
Phoenix, AZ 85016

Andrew W. Bettwy  
Karen S. Haller  
Assistants General Counsel  
Legal Affairs Department  
5241 Spring Mountain Road  
Las Vegas, NV 89150

1 Amanda Ormond  
2 The Ormond Group LLC  
3 Southwest Representative  
4 Interwest Energy Alliance  
5 7650 South McClintock, Suite 103-282  
6 Tempe, AZ 85284

7 Joseph Knauer, President  
8 Jewish Community of Sedona  
9 and the Verde Valley  
10 100 Meadowlark Drive  
11 Post Office Box 10242  
12 Sedona, AZ 86339-8242

13 David C. Kennedy, Esq.  
14 818 East Osborn Road, Suite 103  
15 Phoenix, AZ 85014

16 S. David Childers, Esq.  
17 LOW & CHILDERS  
18 2999 North 44<sup>th</sup> Street, Suite 250  
19 Phoenix, AZ 85018

20 Tracy Spoon  
21 Sun City Taxpayers Association  
22 12630 North 103<sup>rd</sup> Avenue, Suite 144  
23 Sun City, AZ 85351

24 Tammie Woody  
25 10825 West Laurie Lane  
26 Peoria, AZ 85345

27 Douglas V. Fant  
28 Law Offices of Douglas V. Fant  
3655 West Anthem Drive, Suite A-109  
Anthem, AZ 85086

Walter W. Meek, President  
Arizona Utility Investors Association  
2100 North Central Avenue, Suite 210  
Phoenix, AZ 85004

Sein Seitz, President  
Arizona Solar Energy Industries Association  
3008 North Civic Center Plaza  
Scottsdale, AZ 85251

Dan Austin  
Comverge, Inc.  
6509 West Frye Road, Suite 4  
Chandler, AZ 85226

Timothy M. Hogan  
Arizona Center for Law in the Public Interest  
202 East McDowell Road, Suite 153  
Phoenix, AZ 85004

Jay I. Moyes  
Moyes Storey Ltd.  
1850 North Central Avenue, Suite 110  
Phoenix, AZ 85004

Kenneth R. Saline, P.E.  
K.R. Saline & Assoc., PLC  
160 North Pasadena, Suite 101  
Mesa, AZ 85201

Robert W. Geake  
Vice President and General Counsel  
Arizona Water Company  
Post Office Box 29006  
Phoenix, AZ 85038-9006

Lieutenant Colonel Karen S. White  
Chief, Air Force Utility Litigation Team  
AFLSA/JACL-ULT  
139 Barnes Drive  
Tyndall AFB, FL 32403

Greg Patterson  
Arizona Competitive Power Alliance  
916 West Adams Street, Suite 3  
Phoenix, AZ 85007

Jim Nelson  
12621 North 17<sup>th</sup> Place  
Phoenix, AZ 85022

Barbara Klemstine  
Brian Brumfield  
Arizona Public Service  
Post Office Box 53999, MS 9708  
Phoenix, AZ 85072-3999

1 Jon Poston  
2 AARP Electric Rate Project  
3 6733 East Dale Lane  
4 Cave Creek, AZ 85331

5 Coralette Hannon  
6 AARP Government Relations & Advocacy  
7 6705 Reedy Creek Road  
8 Charlotte, NC 28215

9 monica A. martinez  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**EXECUTIVE SUMMARY OF TESTIMONY  
OF DAVID C. PARCELL**

---

**RECOMMENDATIONS AND SUMMARY**

**RECOMMENDATIONS**

My overall cost of capital recommendation for APS is as follows:

	<u>Percent</u>	<u>Cost</u>	<u>Return</u>
Long-Term Debt	45.5%	5.41%	2.46%
Common Equity	<u>54.5%</u>	10.25%	<u>2.59%</u>
Total	100.00%		8.05%

APS's application requests a return on equity of 11.5 percent and a total cost of capital of 8.73%.

On November 2, 1006, I filed updates to Schedules 2, 8, 9, 10, page 1 of 11, and 13 to my Direct Testimony. These updates do not change my recommendations.

**ANALYSES AND CONCLUSIONS**

This proceeding is concerned with APS's regulated electric utility operations in Arizona. My analyses are concerned with APS's total cost of capital. The first step in performing these analyses is the development of the appropriate capital structure. APS's proposed capital structure is its adjusted September 30, 2005 capital structure ratios of 45.5 percent long-term debt and 54.5 percent common equity. I have adopted these capital structure ratios in my cost of capital analyses.

The second step in a cost of capital calculation is a determination of the embedded cost rate of long-term debt. I have used the 5.41 percent cost of long-term debt proposed by APS.

The third step in the cost of capital calculation is the estimation of the cost of common equity. I have employed three recognized methodologies to estimate the cost of equity for APS. I applied

**EXECUTIVE SUMMARY OF TESTIMONY  
OF DAVID C. PARCELL**

---

each of these methodologies to two proxy groups: 1) a group of comparison electric utilities with similar operating and risk characteristics to APS and PWC; and 2) and the group of proxy electric companies analyzed by Company witness Avera. These three methodologies and my findings are:

<u>Methodology</u>	<u>Range</u>
Discounted Cash Flow	9 1/2-10%
Capital Asset Pricing Model	10 1/2-10 3/4%
Comparable Earnings	10%

Based upon these findings, I conclude that the cost of common equity for APS is a range of 9 1/2 percent to 10 3/4 percent, with an approximate mid-point of 10.25 percent. I recommend a cost of equity for APS of 10.25 percent.

Combining these three steps into weighted costs of capital results in an overall rate of return of 8.05 percent.